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SIPDIS

SENSITIVE

TREASURY FOR ALEX SEVERENS

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SUBJECT: TREASURY UNDER SECRETARY TAYLOR MEETING WITH
CENTRAL BANK GOVERNOR ACQUAH

Summary

1. (SBU) Under Secretary Taylor met May 31 with Bank of Ghana (BoG) Governor Paul Acquah to review the state of Ghana's economy. Acquah stated that the GoG is on course to meet IMF and World Bank conditions necessary to achieve HIPC Completion Point in July. Acquah reiterated GoG support for the West African Monetary Zone, although Ghana is the only country close to meeting the convergence criteria. The GoG also fully supports the West Africa Gas Pipeline, but Acquah noted there are outstanding issues to resolve. End Summary

Governor Acquah on Inflation and Monetary Policy

2. (SBU) Acquah commented that domestic debt is a major constraint on growth, and emphasized the importance of foreign financial support to help Ghana pay down its domestic debt and force down inflation and interest rates. Taylor responded that the USG has encouraged the World Bank to increase its grant assistance. Grants now total 21 percent of total World Bank assistance, and Taylor thought this could increase, especially for HIPC countries, thus easing their debt burden. Acquah noted that Ghana must increase its investment ratio from the current 18 percent of GDP to above the 25 percent level common in the fastest growing developing countries.

3. (SBU) Acquah commended robust fiscal policies and higher tax revenues for making it easier for the BoG to conduct disinflationary monetary policies. He noted that market expectations are converging towards the 2004 target inflation rate of 7 to 8 percent, and said the BoG seemed to have succeeded in focusing markets on inflation and interest rates rather than on the exchange rate. With annual inflation falling from 30 percent in April 2003 to 11 percent in May 2004, the BoG was able to reduce its prime rate from 27.5 percent to 18.5 percent, and is considering reducing it further.

4. (SBU) In addition to tight monetary policy, Acquah stated there are three main reasons for declining inflation. First, the fiscal pillar is increasingly robust, with the Finance Ministry committed to public expenditure management and controlling finances within the budget framework. Acquah noted that the quality of expenditures has also increased, with more spending brought on budget and in-line with established priorities. Second, GoG revenues have increased from 17 percent of GDP in 2001 to almost 23 percent of GDP in 2004, almost doubling the amount collected. This was due partially to higher growth but also to improved collection capacity. Finally, by controlling expenditures and increasing revenues, the GoG reduced the budget deficit from roughly 9 percent of GDP in 2001 to an estimated 3.5 percent for 2004.

Status of IMF/World Bank Agreements and HIPC

5. (SBU) Acquah stated that the GoG should be able to meet IMF and World Bank conditions in time for their Executive Boards to approve HIPC Completion Point in late June/early July. The GoG will soon implement a health insurance levy in the form of a 2.5 percent VAT increase, and is also preparing an announcement that it will deregulate the petroleum sector starting Spring 2005. (Note: The GoG sent its draft Letter of Intent to the IMF on June 8 -- details reported septel. End Note)

Acquah's Views on West African Monetary Zone (WAMZ)

6. (SBU) Acquah commented that there is strong political will in Ghana in support of the creation of a central bank and common currency (the "Eco") among the six ECOWAS nations not part of WAEMU (the CFA zone). Acquah was pleased Ghana was chosen as the headquarters of the Central Bank, and considers it a great responsibility. However, he was skeptical about prospects for meeting the mid-2005 deadline, pointing out that Ghana is the only country close to meeting the convergence criteria, and the health of the group -- and success of WAMZ -- depends on Nigeria getting its act together. U/S Taylor agreed with Acquah's concerns about

Nigeria's financial situation, since Nigeria's Central Bank is financing the GON deficit. However, he also commented that Nigeria had made recent progress, for example it successfully brought official and private interest rates closer through its recently established Dutch Auction process.

Acquah's Views on West African Gas Pipeline (WAGP)

17. (SBU) In response to U/S Taylor's expression of concern about the status of WAGP preparations, Acquah said the GoG consensus was that the pipeline would be good for Ghana, but there are outstanding issues related to costs and financing that must be resolved prior to the July 31 final investment decision date. In particular, the GoG is reviewing options for financing the USD 80 million it needs to pay for its 16 percent equity stake in the pipeline. Acquah said he has wondered why the "sponsors" -- Chevron Texaco and Shell -- do not seem willing to borrow the money for Ghana, since they can do so internationally at low rates. He added that issues such as the cost of the project and rate of return the operator will receive had not been resolved to GoG officials' satisfaction. Finally, he said a realistic market analysis was required before Ghana could agree to the take or pay arrangement. The GoG is working with the other WAGP investors to mitigate risks via MIGA political risk insurance.

Comment

18. (SBU) U/S Taylor's separate meeting with Governor Acquah was important to show USG support for the BoG's management of monetary policy. Acquah has played a critical role in developing the GoG's sound economic policies, which have resulted in a relatively strong and strengthening economy. He is often the lone voice of reason on economic policy, and is due credit for the courageous reforms he has spearheaded within the Bank of Ghana -- such as reducing the staff by 50 percent and instituting a Monetary Policy Committee to ensure the BoG stays focused on achieving inflation targets. End Comment.
Yates